

COMMONWEALTH OF KENTUCKY
BEFORE THE ENERGY REGULATORY COMMISSION

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In the Matter of

APPLICATION OF MOUNTAIN)	
UTILITIES, INC. FOR RATE)	CASE NO. 7699
INCREASE)	

O R D E R

On January 10, 1980, Mountain Utilities, Inc. (Applicant) filed an Application proposing to adjust rates charged to its natural gas customers in Staffordsville, Wittensville, Nippa and adjacent areas in Johnson County, Kentucky. The proposed rates would increase Applicant's annual revenues by approximately \$40,000 or 30.5%.

The Commission, in order to determine the reasonableness of the proposed rates, set a public hearing for March 31, 1980. Notice of such hearing was made by the Applicant in manners prescribed by Kentucky law and the rules and regulations of this Commission. The hearing was held as scheduled with the Attorney General's Department of Consumer Intervention being the sole intervenor. At the conclusion of the hearing and following response to all requests for additional information, the matter was submitted to the Commission for final determination.

TEST PERIOD

In order to test the reasonableness of the rates proposed herein the Commission accepts the Applicant's proposed test year, the twelve months ending October 31, 1979.

VALUATION METHODS

Net Investment

The Commission finds, from the record, Applicant's Net Investment in property devoted to public service as of October 31,

1979, to be as follows:

Plant in Service	\$128,067 ¹
Cash Working Capital	6,236
Sub-total	<u>\$134,303</u>
Less:	
Accumulated Depreciation	\$ 64,791
Net Investment	<u>\$ 69,512</u>

Capital Structure

The Commission has determined the Applicant's capital structure at the end of the test period to be:

Long Term Debt	\$18,900
Common Equity	<u>31,576</u>
Total Capital	<u>\$50,476</u>

No other methods of valuation were included in the evidence of record. However, the Commission has given due consideration to all elements of value in order to determine the reasonableness of the matter herein.

REVENUES AND EXPENSES

Applicant proposed several adjustments to its income statement as reflected in its Exhibit L. After due consideration, the Commission has accepted four of the proposed adjustments normalizing increases in wages, director's fees, payroll taxes and interest.

The Commission made two further adjustments to Mountain Utilities income statement. The first adjustment increased revenues \$11,010² to reflect the actual test year revenues that would have occurred if the rates existing at the end of the test period had been in effect throughout the test period. The second adjustment recalculates Applicant's proposed adjustment to purchase gas expense to reflect a 5% line loss factor in accordance with Commission policy. The actual level of line loss included by the company was 25%. This results in a reduction of \$9,731 in purchased gas expense.

¹One-eighth (1/8) of adjusted operating and maintenance expenses less purchased gas.

²Applicant's Exhibit K.

We find the remaining adjustments proposed by the Applicant in Exhibit L to be improper and reject them for ratemaking purposes. These adjustments represent estimated values and, as such, are not measurable and Applicant failed to present sufficient justification to substantiate these adjustments.

Therefore, test-year operations have been adjusted as follows:

	<u>Actual</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted</u>
Operating Revenue	\$131,401	\$11,010	\$142,411
Operating Expense	141,037	(6,706)	134,331
Operating Income	<u>\$ (9,636)</u>	<u>\$17,716</u>	<u>\$ 8,080</u>

SUMMARY

The Commission, after consideration of all the evidence of record and being advised, is of the opinion and FINDS:

That the adjusted rate of return on Applicant's Net Investment is approximately 11.6%.³

That this is a fair, just and reasonable return in that it allows Applicant to pay its operating expenses and service its debt.

That the Applicant should take appropriate steps to reduce its line loss from 25% to the maximum level of 5%.

That the current rates charged by the Applicant are fair, just and reasonable in that they produce annual revenues sufficient to meet operating expenses and debt service requirements.

That the rates proposed by the Applicant are unfair, unjust and unreasonable in that they produce annual revenues in excess of those found reasonable herein and should be denied.

That all purchased gas adjustments approved by the Commission subsequent to the end of the test period have been included in the gas service rates set out in Appendix "A".

IT IS THEREFORE ORDERED, that the rates sought by Mountain Utilities, Inc., in this Case be and the same are hereby denied.

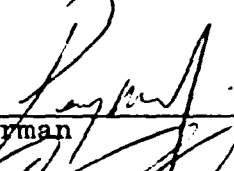
IT IS FURTHER ORDERED, that Mountain Utilities, Inc.,

³\$8,080 + \$69,512 = .116

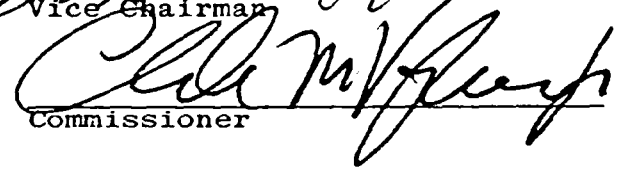
file with this Commission within thirty (30) days from the date of this Order its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this the 16th day of July, 1980.

ENERGY REGULATORY COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE ENERGY REGULATORY
COMMISSION IN CASE NO. 7699 DATED JULY 16, 1980

The following rates are prescribed for the customers in the area served by Mountain Utilities, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

RATES: Monthly

First	2 MCF	\$2.9243 per MCF
Next	48 MCF	2.4149 per MCF
All over	50 MCF	2.2949 per MCF

The minimum monthly bill shall be \$3.64 when less than 2 MCF is used.